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FOR AF/W: EMILY PLUMB;
STATE PASS TO HUD: REBECCA PEMBERTON

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TAGS: [ECON](#) [GH](#) [OTRA](#) [PGOV](#) [PREL](#)
SUBJECT: SCENESETTER FOR VISIT TO GHANA OF HUD SECRETARY
JACKSON

REF: ACCRA 2706

Summary/Introduction

¶11. (SBU) Ghana is a democratic, market-oriented, pro-American country in a region marked by conflict and authoritarian rule. In 2007, Ghana will celebrate 50 years of independence. President John Kufuor is nearly two years into his second four-year term, which has so far been marked by solid economic performance and continued political stability, despite intra-party tensions and corruption scandals. Ghana exerts regional leadership, strongly supports the Global War on Terrorism, and is a committed, major contributor to UN peace keeping operations. Ghana is a member of the International Atomic Energy Agency (IAEA) and has a non-permanent seat on the UN Security Council. Bilateral relations are excellent and broad-ranging. President Kufuor has met President Bush seven times, met with former President Carter for the second time in October 2005, and hosted the successful visit to Ghana of Mrs. Laura Bush in January 2006.

Ghana signed a five-year, \$547 million Millennium Challenge Account (MCA) Compact on August 1, 2006, which focuses on accelerating growth and reducing poverty through private sector-led agri-business. Ghana hopes to showcase itself at several upcoming events. March 6, 2007, its independence day, will be marked with a major Jubilee celebration. In June and July 2007, Ghana will host the African Union Summit and the African Growth and Opportunity Act (AGOA) Forum, respectively. In February 2008, Ghana will host the African Cup of Nations soccer tournament. End Summary/Introduction.

U.S.-Ghana Relations

¶12. (U) Ghana is a reliable, democratic partner for the U.S. in peacekeeping, conflict resolution, counter-terrorism, and economic development. U.S. interests center on support for Ghana's fourteen-year-old democracy, promotion of open markets, and the reduction of poverty. Key building blocks of the broad U.S.-Ghana relationship are: democracy; development assistance and trade; and Ghana's regional leadership.

¶13. (U) Democracy: Ghana's December 2004 parliamentary and presidential election, the fourth election under the 1992 constitution, and September 2006 local elections were seen as free, fair and generally peaceful. Ghana has a free, lively media and civil society, a largely independent judiciary and Electoral Commission, and an apolitical military. It generally respects human rights and the rule of law. However, the long-term success of Ghana's constitutional

democracy is not guaranteed and democratic institutions are weak. While Ghana scores better than many countries in Africa on Transparency International's Corruption Perception Index (CPI), Ghana slipped from 65 to 70 globally in 2006, its lowest ranking since 1999. Corruption is a growing concern. Anti-corruption institutions are weak. The United States has programs to help strengthen parliament, the judiciary, the police, and the media.

¶4. (U) Development Assistance and Trade: In 2006, the USG expects to provide about \$75 million in assistance to Ghana, not including support related to Millennium Challenge Account Compact development. This includes one of USAID's largest programs in Sub-Saharan Africa. Ghana receives approximately \$50 to \$60 million in USAID grant assistance and food aid per year, with a focus on education, health, HIV/AIDS, trade and investment, and democracy and governance. The U.S. and Ghana have a relatively dynamic trade relationship. U.S. exports to Ghana in 2005 increased to approximately \$338 million, a 9 percent increase over 2004; Ghana is consistently the fifth or sixth largest market in Africa for U.S. goods, and is the eighty-ninth largest market globally. U.S. imports are equal to about \$14 per capita, which is equivalent to about 3.5 percent of GDP per capita.

¶5. (U) Regional Leadership: Ghana provides solid cooperation in counter-terrorism and counter-narcotics efforts. We have a robust mil-mil relationship, in part a recognition of Ghana's outstanding contribution to peacekeeping (Ghana is the fourth largest contributor to UN peacekeeping forces worldwide) and to regional stability. Ghana was key to peace efforts in Liberia and Cote d'Ivoire. Ghana was elected to serve a two-year term (2006 and 2007) as a non-permanent member of the United Nations Security Council. Kufuor served as Chair of the ECOWAS for two terms, ending January 2005.

ECOWAS Executive Secretary Mohammed Ibn Chambas is Ghanaian. Ghana has also been welcoming to refugees and currently hosts about 60,000 refugees, mostly Liberian. We support Ghana's regional role through our mil-mil activities, USAID's West Africa Regional Program (WARP) and our Refugee Coordinator Office, all based in Accra.

Internal Political Situation

¶6. (SBU) President Kufuor is now nearly halfway through his second four-year term. This term has been marked by continuity in his priority themes and his cautious approach to governance. Kufuor dropped two prominent ministers and made other minor changes during an April 2006 Cabinet reshuffle. In response to rising global oil prices and IMF pressure, Kufuor raised petrol prices to cost-recovery levels with minimal political repercussions, and established a National Petroleum Authority. The GoG introduced a Capitation Grant to pay for individual education costs, and began to provide transit and food to school children to increase enrollment. Ghana was one of the first two countries to submit itself for review under the New Partnership for Africa's Development (NEPAD) African Peer Review Mechanism, which evaluates political economic, and social governance.

¶7. (SBU) Ghanaian politics is highly polarized. The New Patriotic Party (NPP) and opposition National Democratic Congress Party (NDC) are nearly evenly matched in parliament, the result of a very close 2004 national election. Leaders of these two major parties intensely dislike each other. NDC parliamentarians complain that the NPP throws its weight around, using its majority to force legislation through the system. The NPP and NDC both suffer from intra-party divisions, which are increasing in the run-up to party conventions in December and presidential/parliamentary elections in 2008. There are nine smaller established parties in Ghana, including two recently formed ones.

¶8. (SBU) The Kufuor government has faced recurring charges of

corruption over the past two years, highlighted by Ghana's free media. Energy Commission Members were forced out under a cloud. The Administration was attacked for alleged corruption in the creation of Ghana International Airlines. Media allegations have linked the President to a corrupt hotel deal, although he was later exonerated. While probably more the result of poor institutional capacity than corruption, Ghana is currently under considerable international pressure to address allegations that conflict diamonds from Cote D'Ivoire are passing through Ghana, despite checks under the Kimberley Process. Two public opinion polls last year found a growing perception that corruption is on the rise, especially by the president and those in his office. The recently released Transparency International Corruption Perception Index offers further evidence of public perceptions that corruption is worsening. In November 2005, the Enquirer newspaper revealed a secretly-recorded tape in which the NPP Party Chairman

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alleged that government contractors pay kickbacks to the president and his staff. The scandal resulted in the resignation of the party chairman. The Minister of Roads and Transport resigned in October after being found guilty of abuse of government office following an investigation for corruption. The GoG has also been grappling with a cocaine trafficking scandal implicating some senior police and former counternarcotics officials.

Security

¶9. (SBU) Ghana's 8,000 strong military is characterized by its allegiance (at least over the past six years) to elected civilian leadership, as well as a rich peacekeeping tradition and a close relationship to the United States. Since 1960, over 80,000 Ghanaian soldiers and police have participated in peacekeeping missions worldwide, including currently in the Democratic Republic of Congo, Lebanon, Liberia, and Cote d'Ivoire. We provide, or have provided, support through: our Excess Defense Articles (EDA) program; the International Military Education and Training (IMET) program; the Foreign Military Sales (FMS) and Foreign Military Financing (FMF) programs; the Enhanced International Peacekeeping Capabilities (EIPC) program; the African Contingency Operations Training and Assistance (ACOTA) program; and a robust DoD Humanitarian Assistance (HA) program. Ghana will continue to receive increasing amounts of support under the

Global Peace Operations Initiative (GPOI), launched in 2004, in the form of peace support operations training, administered through ACOTA. Ghana opened the Kofi Annan International Peacekeeping Training Center (KAIPTC) in 2004, the only center of its kind in West Africa. The United States European Command (EUCOM) provides direct support in the form of a full-time liaison officer who is attached for duty at the KAIPTC, and has provided approximately \$1 million in funding support.

¶10. (U) Our mil-mil relationship also includes West Africa Training Cruises and Joint Combined Exchange Training. Ghana is the newest member of the State Partnership Program (SPP), partnered with the North Dakota National Guard (only the second in Sub-Saharan Africa), which will further strengthen mil-mil and civilian-military ties. In October 2006, as part of &Med Flag 06.8 the North Dakota National Guard and the U.S. Air Force Europe provided medical care at two sites in northern Ghana and one site in Accra, and the U.S. Navy provided training for Ghanaian military nurses on board U.S.S. Elrod. Ghana participates as an African Fuel Initiative Hub country, and allowed the construction of an Exercise Reception Facility (ERF) at Accra Air Base under an addendum of that Technical Arrangement (TA) signed in 2005. Ghanaians avidly participate in DOD's Counterterrorism Fellowship program (CTFP). Military visits over the past year included three ship visits, ten General Officer or Flag Officer visits, and a regional maritime and coastal security

conference.

¶11. (SBU) Ghana is a strong ally in the Global War on Terror.

Ghana has signed 12 of 13 UN terrorism conventions and a Customs Mutual Assistance Agreement. We have excellent police contacts and good cooperation with the police and other security services. We have serious concerns about growing narcotics trafficking (especially cocaine) and financial fraud. We have assisted Ghana's police, customs, and counter-narcotics agencies, including ongoing basic training for the police.

State of the Economy

¶12. (SBU) In 2000, the Kufuor government inherited a distressed economy: high debt levels; accelerating inflation and interest rates; a plummeting currency (the "cedi"); all exacerbated by declining world cocoa and gold prices (the main foreign exchange earners); and rising crude oil prices. Kufuor's government strengthened fiscal and monetary policies considerably, reining in spending and borrowing, and cutting subsidies by imposing badly needed energy and water price increases.

¶13. (SBU) The improved policy performance along with higher cocoa and gold prices since 2002 resulted in higher economic growth, with growth rates exceeding 5 percent each year since ¶2003. In 2006, the growth rate is expected to be about 6.2 percent. Tight monetary policies since mid-2003 restored confidence in the economy, and the IMF called the government's control of expenditures during the 2004 election year an "historic achievement." As a result of the improved policies, inflation fell from over 30 percent in mid-2003 to less than 15 percent from 2004 onwards. The prime rate has also fallen to below 15 percent. The cedi has been relatively stable against the dollar for more than two years.

However, the strong macro-economic performance has yet to translate into widespread prosperity for Ghanaians. More than 35 percent live on less than \$1 per day.

Positive Economic Trends: MCA and Regional Role

¶14. (SBU) Ghana is a gateway to West Africa, due in part to its political stability and economic reforms, but also because of turmoil in other parts of the region. Trade and investment flows to and through Ghana are increasing, and businesses, Embassies, NGOs, and international organizations are increasing their presence in Ghana, using it as a regional hub.

¶15. (SBU) In May 2004, the Millennium Challenge Corporation (MCC) designated Ghana eligible for Millennium Challenge Account (MCA) funding. The Ghanaians were slow to organize their MCA team and the process languished for months, sidelined by the 2004 election campaign and subsequent reorganization of the cabinet in early 2005. Once the GOG got the right personnel in place, the process moved along

well and a Compact was signed August 1, 2006. The five-year, \$547 million Compact will be carried out in 23 districts in three zones: northern area; central Afram Basin area; and southern horticultural belt area. More than one million Ghanaians are expected to benefit, directly and indirectly, from the program. The Compact activities are designed to: 1) Enhance the profitability of commercial agriculture among small farmers; 2) Expand transportation infrastructure affecting agricultural commerce at sub-regional and regional levels; and 3) Strengthen the availability of basic community services and rural institutions that provide services complementary to, and supportive of, agricultural and agri-business development. Ghana created the Millennium Development Authority through an act of Parliament to implement the Compact. A key challenge regarding the Compact is managing expectations. The Compact

has not entered into force (expected in early 2007) and results will not show significantly until 2008.

¶16. (SBU) In July 2004, Ghana reached Completion Point under the Heavily Indebted Poor Country (HIPC) Initiative. This achievement also ensured Ghana's eligibility for further debt relief under the G-8-led Multilateral Debt Relief Initiative (MDRI), announced in June 2005. According to the World Bank, in 2006, Ghana will benefit from combined HIPC and MDRI debt relief in the amount of \$364 million, and total estimated benefits are estimated at \$1.3 billion between 2006 and 2009.

Ghana is also realizing large foreign remittance flows. According to the Bank of Ghana, private individuals transferred \$996.08 million in remittances between January and August 2006. Ghana is also experiencing increasing foreign investment, including from U.S. companies such as Newmont Mining and ALCOA. The government has resolved many of the investment disputes that undermined U.S.-Ghana relations in recent years.

¶17. (SBU) Ghana's impressive performance has not gone unnoticed. Standard and Poor's assigned Ghana a relatively solid "B plus" sovereign credit rating. Fitch Rating Agency upgraded Ghana to a "B plus" rating in March 2005, citing HIPC Completion Point, improved economic indicators, and fiscal restraint through the election cycle.

Concerns: Energy, Business Climate, External Shocks

¶18. (SBU) The government faces major challenges in its effort to reform the economy. Ghana has a reputation as a slow and steady reformer, and GoG leaders do not appear to be taking full advantage of the current opportunities. While the Finance Ministry and Central Bank have done an admirable job of implementing macroeconomic reforms, the GoG has been slow to implement the politically sensitive next level of reforms, including privatization of utilities, civil service reform, improving the investment climate, and attacking corruption (especially in the ports). While fiscal discipline held relatively steady, economic reform lost considerable momentum during the 2004 election year. Many NPP leaders were concerned that the reform effort had not translated into improved living standards for Ghanaian citizens, so pressure increased on President Kufuor to delay politically difficult reforms.

¶19. (SBU) Ghana's failure to make adequate investments into energy production is a constraint on growth and productivity. It is estimated Ghana will need to acquire an additional 500 megawatts of generation capacity over the next five years. Ghana experienced record low water levels in the Akosombo Dam (which provides 65 percent of Ghana's hydroelectric power) in August 2006. The GoG began mandatory load shedding at that time, causing rotating 12-hour electricity outages. Yet this &crisis8 is no surprise. There is no short-term fix, and the World Bank estimates that energy shortages could reduce Ghana's real GDP by 1 to 5 percent per year. The government may be starting to respond. The 2007 budget includes approximately \$102 million for energy investment. The West Africa Gas Pipeline, which is scheduled to be online in 2007, will enable Ghana to reduce energy costs by substituting some natural gas for petroleum.

¶20. Despite Kufuor's promise of a "Golden Age of Business," Ghana remains a difficult and risky place to do business. Contract sanctity and difficulty in obtaining clear land title are concerns. Ghana's congested courts make it difficult to resolve disputes. Due to excessive bureaucracy the average time to start a business exceeds 80 days, high compared to Ghana's peers (i.e., other top performers). This contributes to widespread corruption, as the heavy paperwork

and licensing requirements create incentives to bypass normal channels. While the corruption damages Ghana's reputation, it also scares away legitimate investors and diminishes the potential impact of new investment on economic growth and

reducing poverty. Finally, Ghana's infrastructure is in poor shape, and its dependence on commodity exports (gold, cocoa, timber) leaves it highly vulnerable to external shocks.

Economic Outlook

¶21. (SBU) Despite these concerns, the overall outlook is fairly positive. If Ghana maintains fiscal and monetary discipline, world oil prices stabilize, and favorable external conditions continue for gold and cocoa, the economy should remain stable and continue to grow at the rate of 5 to 6 percent per year. The GoG goal is 7 to 8 percent growth in order to reach middle-income status by 2015.

BRIDGEWATER